metaldyne

International Trade Commission Investigation 332-452
Steel Consuming Industries: Competitive Conditions with respect to Steel Safeguard Measures

"Lost jobs, more imports: unintended consequences of steel tariffs"

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Members of the Commission, I would like to thank you on behalf of Metaldyne Corporation for the opportunity to present this testimony before you today. My name is Tim Leuliette, Chairman, President and CEO of Metaldyne Corporation.

Headquartered in the metropolitan Detroit area, Metaldyne and its affiliate companies employ over 11,000 people at over 100 manufacturing locations worldwide and had 2002 revenues of $ 2.4 billion. Metaldyne is a leading global supplier of metal-based components, assemblies, and modules for safety-critical chassis, engine, driveline, and transmission applications.

Historically, Metaldyne purchases 98% of its primary raw material, Special Bar Quality (SBQ forging steel), from U.S. based steel manufacturers. That steel represents a significant portion of our total cost, in many cases in excess of 50%. At over 380,000 tons annually, we are one of the largest consumers of SBQ steel in North America.

Given that introduction and background I am here today to ask one question and make three critical points:

My question is why has the steel industry so aggressively fought to keep us, their customers, from being heard on this issue?

My three points are:

- First, Metaldyne's steel suppliers are healthy, well-managed companies in a segment of the industry that has already rationalized its capacity, most of whom posted healthy sales and profits in 2001, and records last year.
- Second, the 201 tariff program is costing U.S. based jobs at steel consuming companies.
- Finally, the 201 tariffs must be eliminated before significantly more U.S. based manufacturing jobs are lost.

First my question for you. Why has the steel industry fought so aggressively to keep us, their customers, from being heard on this issue?

Had it been up to them this hearing would not have taken place. They strongly opposed House Concurrent Resolution 23, proposed by Rep. Joe Knollenberg of Michigan, which sought to give steel consumers a voice in this debate. Why is that?

Further, rather than allowing their testimony at a House Ways and Means hearing earlier this year to stand on its own merit, the steel industry, through the American Iron and Steel Institute (AISI) has vainly attempted to discredit their customers' position on this issue.

In an attempt to influence you, the American Iron and Steel Institute (AISI) submitted a misleading document regarding Metaldyne's opposition to the Section 201 steel tariffs as supplemental testimony to the House Ways and Means Subcommittee on Trade. They also distributed this document to the media. Through distortion and misrepresentation, this document attempts to draw contradictions between Metaldyne's 2002 financial filings and the testimony that I gave at a hearing of the House Ways and Means Subcommittee on Trade on March 26, 2003.
This action by AISI is unprecedented in business history whereby a trade group takes on its customers in a public forum.

Why did they do this?

Are they afraid of having their customer's perspective on the Section 201 steel tariffs heard?

If so, why?

So what about the health of Metaldyne's steel suppliers?

In fairness, Metaldyne's steel suppliers have not been actively involved in the AISI's lobbying efforts for steel tariffs. Our suppliers, for the most part, are well-run, profitable companies. In fact, at least two of our four primary suppliers posted record profits last year. Good for them. Metaldyne needs a healthy and competitive domestic steel industry, but not at our expense.

Interestingly, these companies were also profitable in 2001 before the 201 action was implemented. So the 201 program only served to make them more profitable, at our expense. You see, this specialized segment of the steel industry had already rationalized its capacity before the tariff program. They do not need the tariff program.

Having said that, let's focus on the most important issue at hand: jobs. The fact that the Section 201 tariff program is costing U.S.-based jobs in steel consuming companies is simply a matter of global economics.

Since the tariffs were implemented, we have experienced 5-10% price increases in aggregate and up to 50% on specific items. We are also experiencing supply shortages on specific grades of steel which is forcing us to go offshore and pay the full 24% tariff in some cases.

In the automotive industry, our customers, the vehicle manufacturers and many first tier suppliers require that we deliver 3-5% price *reductions* on an annual basis. In recent months, price pressure from our customers has intensified as a result of a deflationary economic environment in our sector. The net result of the tariffs is that our competitive position in the marketplace has been jeopardized because our customers will not accept pass-through increases.

The steel tariffs have hand-cuffed us with the highest steel prices in the world, and that threatens our competitive position as a global supplier. The door has been opened for foreign companies to compete for business. Before the tariffs, this would not have been possible. The bottom line is that our customers will go anywhere to get the best product at the best price. We have already lost business to foreign companies as a result of the tariffs and we are going to lose more...because of the tariffs.

To respond to this economic environment, we are actively and aggressively pursuing alternatives that guard against business loss. Specifically, we are:

- Purchasing offshore components that, before the implementation of the tariffs, were made in our U.S. facilities. This is costing U.S.-based jobs at Metaldyne and at our downstream suppliers.
  - For example, this transmission clutch component that we used to make at our Royal Oak, Michigan facility—North America's most technologically advanced hot forging operation—is now being purchased from a company in Korea for 25% less than we can make it in the U.S. Our supplier in Korea purchases steel at globally competitive prices, performs a basic forming operation, ships the part to the U.S. and avoids the Section 201 tariff. Before the tariffs, Metaldyne could purchase steel at globally competitive prices, forge the part at its Royal Oak operation, machine the part down the street at its Farmington Hills operation, and sell the part to the customer for a reasonable profit. In fact, our direct steel supplier is losing over $1 million annually as a result of this resourcing decision.

  Metaldyne's other downstream suppliers including indirect steel producers, tool and die makers and heat treatment operations are losing over $500,000 annually, which may not seem like a significant amount of money, but when you consider how the size of these companies, it's enough to put them out of business. All told, Metaldyne and its six affected suppliers are displacing $6 million in revenues—creating a $4 million loss for Metaldyne's Royal Oak operation.

- The same principle applies to this preformed differential gear that we've also begun to purchase from offshore. Prior to the tariffs, Metaldyne's forging plant in Detroit used domestic steel to produce the part, but since the tariff program, Metaldyne has begun purchasing the preformed part from Korea for less than we can make it in the U.S. because of the high cost of steel. This resourcing action has shifted $20 million in revenue from a Metaldyne facility to Korea at the expense of our workers and suppliers, including our steel suppliers.

According to the National Association of Manufacturers, every $1 million in revenue generates 8 jobs in consuming sectors and 6 jobs in related supplier industries. So, $26 million in lost or displaced revenue will eventually result in over 360 lost jobs in the U.S.

We are talking about six part numbers out of thousands that Metaldyne produces...and they represent the tip of the iceberg in terms of sourcing components outside of the U.S. at the expense of U.S. jobs. We do not want to do this, but the tariffs are forcing us to do this just to remain competitive in a global market.

- We're also shifting up to 40% of our domestic steel buy to exempt countries including Turkey and Brazil. We expect to achieve half of this by year-end and the balance in 2004. This equals lost business for U.S. steel producers and threatens additional U.S. jobs.

Despite what the steel industry will tell you, what I have just shared with you are the facts with regard to the impact of the Section 201 tariffs on Metaldyne specifically and other automotive steel consumers in general. These are long-term sourcing decisions with long-term impact. They are the facts. They are undisputable...and I do not believe for one minute that these were the intended consequences of the Administration.

At the end of the day, there is only one reason why the Section 201 tariffs must be reversed immediately. They are costing us U.S. manufacturing jobs that will never return. By some estimates, 201 has already cost more jobs in the steel consuming segment (over 200,000) than even exist in the U.S. steel industry (178,000). And it has only just begun.

Before I close, I'd like to take a minute to share some employment data with you. When Metaldyne and its affiliate companies were formed in January 2001, we had almost 11,000 U.S.-based employees. At the beginning of 2003, our U.S employment had dropped to about 8,500. Since January 2003, Metaldyne has cut approximately 300 hourly and salaried workers in the U.S., and expects to cut an additional 300 employees in the coming months—all due in part to the steel tariffs.

In these uncertain times, we cannot afford to shift production overseas and risk cutting employment at our domestic operations. Even when domestic auto production increases, if the steel tariffs are still in effect, we will be forced to restore our manufacturing operations in countries that allow us to be globally competitive.

On behalf of Metaldyne and our over 8,000 U.S.-based employees, I would like to thank the International Trade Commission for studying the impact of the tariffs on consumers, Congressmen Knollenberg for his early and strong leadership on behalf of steel users, Chairman Bill Thomas of the House Ways and Means Committee, and the other members of Congress who have supported giving steel consumers a voice in this debate. Again, thank you for the opportunity to testify today on this very important issue. I urge you to consider the damages already caused by the tariffs, and the long-term effects that will result from their continuation. You can prevent further devastation by urging the President to reverse the Section 201 tariffs at the midterm review...before it's too late.